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FORECAST: GOOD START TO BETTER YE

RV FACE-LIFTS MAKE PRETTY PROFITS

MEETINGS—FOR THOSE WHO HATE TH...

RV BUSINESS

JUL/1

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U.S. RV Firms Exploring Japan Sales

While a number of Japanese companies have entered the American RV-supplier field recently, some U.S. RV businesses are cautiously exploring opportunities in the land of the Rising Sun.

Jayco Inc., Middlebury, Ind., for one, is in the process of reengineering a special lineup of narrower folding camping trailers for the downsized Japanese marketplace. Jayco was among a handful of U.S. RV companies exhibiting at three popular RV shows in Japan this spring, acknowledged Phillip R. Berry, president of Nagao-Berry International, Goshen, Ind., Jayco's exporter.

Also exploring Japanese markets is Holiday Rambler Corp., Wakarusa, Ind., which this spring shipped the last of a five-unit Holiday House park-model order to a Japanese motor sales firm. Meanwhile, Kropf Manufacturing Co. Inc., Goshen, Ind., in June was assembling its own 8-foot-wide slide-out park model for Japanese hunting-resort owners.

In the van market, Starcraft, Topeka, Ind., expects to sell more than 100 fully equipped van conversions in Japan this year through a Tokyo dealer. That's "quite a bit more than last year," according to Starcraft Chairman Dominic Cuzzocrea.

All four companies hope to garner more serious sales volume in the future from Japan, because, as exporter Berry ex-

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GETTING THE MOST FROM F&I: Industry experts discuss why setting up a separate finance-and-insurance department is the best way to improve F&I profits. See page 27.

RVDA Plans to Set Up RV School

RVDA has announced that it intends to establish a broad-based school for the RV industry to address a perceived need for professional-caliber educational opportunities.

As envisioned, the school would offer courses for all dealership levels—from technical to management training. Certificates would be earned by students who successfully complete a prescribed series of courses, and, ultimately, college-level degrees in some specialties could be awarded in conjunction with an established college, according to RVDA Executive Vice President Bob Strawn.

"We are interested in giving dealers the tools to win with, and knowledge is one of the fundamental requirements," said Strawn. He added that there are several rationales for establishing a two- or four-year degree program, including keeping dealers' college-age family members involved in the RV industry and attracting new,

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New Calif. Law Permits Sale of Chevy Chassis

California Gov. George Deukmejian on May 27 signed into law an "urgency measure" bill belatedly opening the door for General Motors Corp.'s Chevrolet Motor Division to begin marketing certain 1988 cutaway chassis and some lighter Class A rails in California, according to Tom Jennings, an attorney for the California Air Resources Board (CARB).

The new law—for which CARB, Detroit, Mich.-based Chevrolet and several California-based motorhome manufacturers lobbied strenuously—alters previous state law in such a way as to permit Chevrolet to sell 10,000- to 14,000-pound gross vehicle weight chassis that do not conform with the state's emissions standards. Chevrolet, however, must pay nonconformance penalties (NCPs) for each chassis sold in California for the rest of the current model year and 1989.

Previous California law had prohibited the state from levying payment penalties until the U.S. Environmental Protection Agency had developed its own NCP program.

Jim Greene, assistant manager of special vehicles for Chevrolet, said, "We are releasing chassis for production currently. We finalized our program on June 1, and we will be building some 1988 models for California, as well as some '89 models, in the not-too-distant future." Δ—*Sherman Goldenberg*

JULY 1, 1988 TWO DOLLARS

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COVER ILLUSTRATION: TOM DILLON

A GOOD START TO A BETTER YEAR

MORTON J. MARCUS

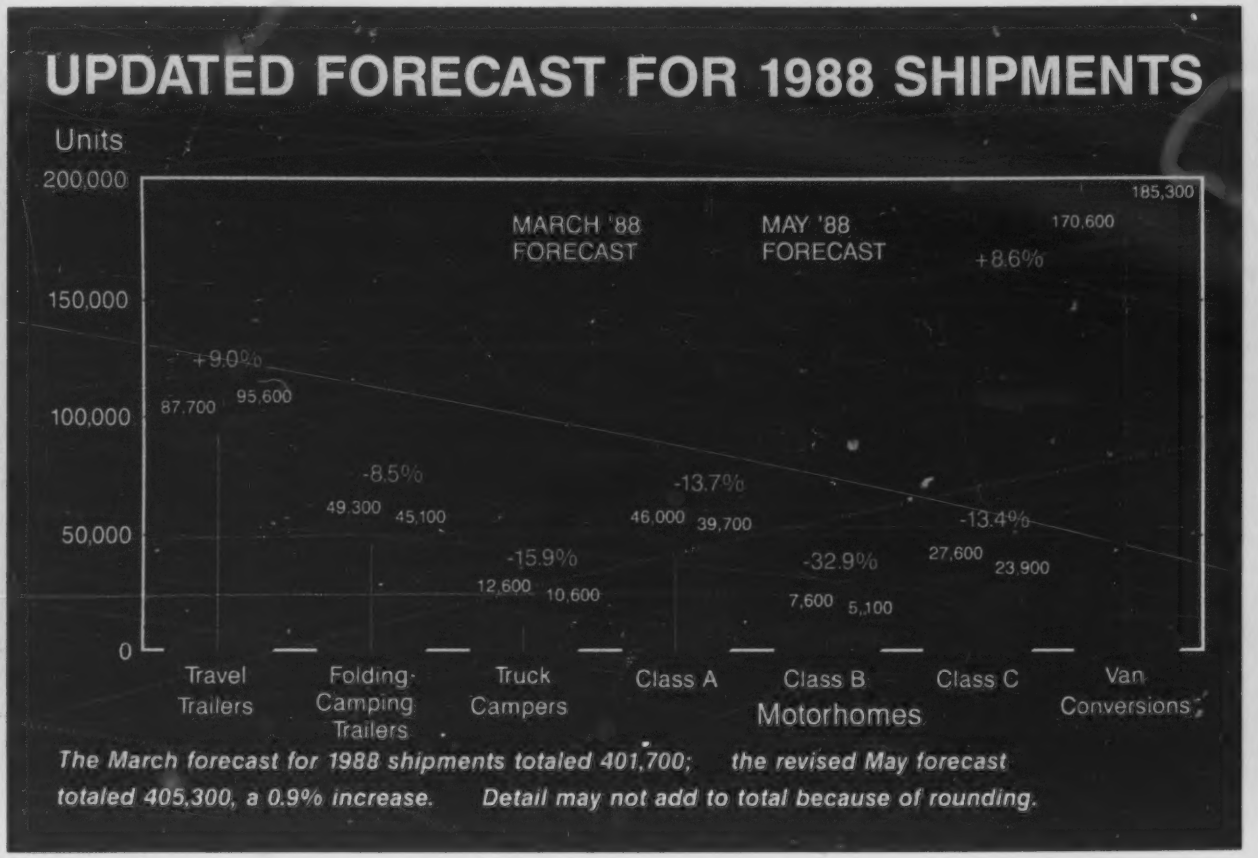

Figure 1

1988 is moving along better than expected, better even than our earlier forecast, which many labeled as "too optimistic" *(see RVB, March 25, 1988)*.

What did we say in March, and how has it turned out? For the RV industry, we previously forecast that the national economy would be down in the first quarter of 1988 and then move ahead for the remainder of the year. The decline in the first quarter was to be largely technical and not related to the stock market.

In actuality, even that decline did not manifest itself. In fact, the basic measure of the national economy went up by about as much as we said it would go down. The reason can been seen in Figure 2: Consumers spent at a faster pace than anticipated in the first quarter, and the good news about exports was even stronger than expected.

But our RV forecast for the first quarter of 1988 was off by only 300 units, or a mere 0.3%. Our predictions were actually on the high side for all but two types of RVs: Travel trailers and van conversions did better than we expected. The old friend of forecasters, "compensating errors," was at work again.

The National Forecast

A very slowly improving economy is the basic forecast, as seen in Figure 2.

Real gross national product (GNP) begins to pick up strength at the end of the year once consumers re-establish their position in the marketplace after a period of slower activity.

The year began with consumers buying autos at a good rate, but only by borrowing from future sales; hence, we foresee a slowdown in the growth of consumer spending in the second quarter. Auto sales were at an annual rate of 10.7 million units in the first quarter, as manufacturers tried to move their large inventories with the usual array of interest-rate subsidies and rebates. Some of that activity continues, but we expect sales to slow to the lower part of the 10-million-unit range and end the year with 10.4 million units.

Another factor slowing consumer activity in the second quarter was the big April tax bite by the Internal Revenue Service. Many taxpayers were surprised by the smallness of their refunds or the large size of the amounts due when the hype of the 1986 tax-reform package was turned into reality by their accountants. The effect will be seen in the data as a slowdown in the growth of disposable personal income, as in Figure 3.

Meanwhile, export activity is expected to continue growing

GRAPHICS: CUSTOM COLOR VISUALS

QUARTERLY FORECAST

1988 GROWTH RATES

(Quarterly percent changes at annual rates)

	1988:1	1988:2	1988:3	1988:4	1989:1
Real GNP	2.3	2.3	2.4	2.8	3.4
Consumer Spending	3.8	1.1	2.5	2.7	2.8
Exports	10.2	9.1	8.6	7.9	7.3
Imports	5.2	3.4	5.6	5.5	4.9

Figure 2

KEY FACTORS IN THE YEAR AHEAD

	1988:1	1988:2	1988:3	1988:4	1989:1
Prime Interest Rates	8.6%	8.8%	8.8%	8.9%	9.1%
Percent Change at Annual Rate:					
Money Supply (M-2)*	7.0	5.6	5.4	5.7	5.4
Disposable Personal Income	3.2	0.4	3.3	2.7	2.4
Consumer Price Index	3.4	4.3	4.1	4.2	4.4
Motor Fuel Prices	−13.9	2.9	3.1	3.3	3.5

*M-2 consists of the nation's basic money supply of currency, plus demand deposits, plus savings accounts at commercial banks.

Figure 3

RV SHIPMENTS

(Quarterly data are seasonally adjusted)

	1988:1	1988:2	1988:3	1988:4	Total
	Actual	Forecast			
Total RVs	100,000	100,400	101,700	103,200	405,300
Travel Trailers	24,000	23,700	23,800	24,100	95,600
Folding Camping Trailers	11,000	11,100	11,400	11,600	45,100
Truck Campers	2,600	2,600	2,700	2,700	10,600
Motorhomes					
Class A	9,500	9,800	10,100	10,300	39,700
Class B	1,200	1,300	1,300	1,300	5,100
Class C	5,800	5,900	6,000	6,200	23,900
Van Conversions	45,900	46,000	46,400	47,000	185,300

Figure 4

RV SHIPMENTS: FIRST QUARTER 1988

(Quarterly data are seasonally adjusted)

	Actual	Forecast
Total RVs	100,000	100,300
Travel Trailers	24,000	22,300
Folding Camping Trailers	11,000	11,900
Truck Campers	2,600	3,000
Motorhomes		
Class A	9,500	11,300
Class B	1,200	1,800
Class C	5,800	6,700
Van Conversions	45,900	43,300

Figure 5

faster than imports as the dollars' decline continues. The difference in growth rates, however, diminishes with time, as can be seen in Figure 2.

Much of this forecast is dependent on slowing growth of the money supply as the Federal Reserve Board tries to keep the lid on inflation. We acknowledge that the interest-rate forecast may appear to be too low given April's prime-rate increases, but those increases may have been premature efforts.

Thus, we do not see a sharp or dramatic rise in interest rates nor in prices (see Figure 3).

The RV Forecast

Our last forecast was the first in which we attempted to provide detail for all seven major RV types. As we learn and as the economy changes about us, revisions are made. The strong start of the economy and the RV industry has us adjusting our forecast upward, as seen in Figure 1.

Whereas we had forecast shipments of 401,700 units just three months ago, we now call for 1988 shipments to total 405,300.

The changes for the industry as a whole are small, but, as is usually the case, the individual market components have some dramatic changes. While the total forecast has been increased by only 1% by events in the past few months, the forecast for travel trailers is now 9% higher than it had been. Likewise, the forecast for van conversions has been revised upward, with corresponding decrease for other types of units.

The variations in the forecast for the different types of recreational vehicles occur because each type of RV responds differently to economic changes.

The numbers presented in Figure 1 reflect both our experience with a more detailed forecast and a changing environment. Steady improvement is expected throughout 1988, but at very different rates for each RV type.

Motorhomes, although predicted to improve during the year, are expected to be off from their 1987 levels. Towables and van conversions, however, are both expected to be moving at higher rates than in the past year. The effect on market shares is as follows:

	1987	1988
Towables	36.1%	37.3%
Motorhomes	18.6	17.0
Van Conversions	45.3	45.7
Totals	100.0	100.0

These data differ from our last forecast mainly by a shift of three market-share points from motorhomes to van conversions. This change results from a far better performance by van conversions in the first quarter than expected.

A Look at 1989

Current indications for 1989, based on our econometric model, are that shipments should improve and average about 4% better than in 1988. Whereas total shipments in 1988 are expected to be more than 405,000 units, we now expect better than 423,000 units (+4.3%) in 1989.

A new Congress and a new administration could have a bearing on these results, but it is far too early to factor in any changes in economic policy. Continuing doubts about inflation, however, could cause the Federal Reserve Board to tighten up even more on the growth of the money supply, raising interest rates and sending chilling waves of concern through the ranks of consumers.

Indeed, there is no shortage of problem areas for 1989 and the new president. Any of the following could be enough to derail a sluggish economy; take your pick:

- Foreign countries default on their loans;
- OPEC gets its act together and raises oil prices;
- Some major Texas banks are seen for what they are—namely, insolvent;
- Inflation picks up, and inflationary expectations soar;
- New excise taxes are levied on big-ticket consumer items;
- The decline in the dollar does not sustain a rise in exports;
- Foreign investors slowly abandon the U.S. capital markets, driving down stock prices and raising interest rates; or
- General Noriega becomes the head of the U.S. anti-drug campaign.

Although we do not expect any of these events, they suggest how close we are at times to the edge of a recession. There has not been any evidence of strong growth in the U.S. economy since 1984, when we pulled out of the 1979-83 recession. Although we have expanded regularly for nearly 70 months now, that growth has been lacking vigor, and there are no signs of a major force which would sustain a more rapid expansion. Δ

Morton J. Marcus is the director of the Indiana Business Research Center at Indiana University School of Business, where he is also a member of the faculty. Marcus specializes in using statistics to identify economic trends.